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* Low Birthrate Presents Problems for Economy

902A0068A Tokyo SHUKAN DAIYAMONDO in Japanese 25 Nov 89 pp 36-48—FOR OFFICIAL USE ONLY

[Article by Shoji Yoneda, Future Forecast Research Institute director: "Shock of Abnormal Lowering of Birthrate; Pointing Out a Problem"]

[Text] Once, in 1966, the year of the horse, the number of births fell to 1.361 million, but the number of births last year fell below that, to 1.314 million. This is close to the number of births in 1895 (the 28th year of the Meiji era), when the population was only about one-third what it is at present. Yet society has no feeling of crisis in regard to this. One of the reasons for this is because the Ministry of Health and Welfare explains it by saying that the third baby boom since World War II will come along about 1998, and the number of births will recover to about the present level.

However, when we estimate the number of births this year from figures reported thus far, it has fallen to the level of 1.28 million. It is seen as certain that in 1990 it will fall still further, to the 1.25 million level. And it is also fully expected that if we leave things as they are, as we move toward the end of this century the number of births in Japan will never exceed that of a previous year, and will soon go on falling to the 1.10 million level, about the same number of births as in the early part of the Meiji era. I will explain the reasons in detail in the main body of this article. If, in contrast to the 1.9 to 2.0 million young people who reach adulthood each year at present, the number of births declines suddenly in this manner from 1.2 million to 1.1 million, before long it will be impossible to avoid exerting a destructive shock on Japan's economy.

One reason is that, needless to say, the difficulty which companies have in recruiting new graduates will become incomparably worse than it is at present. From the year 2000 onward for a period of approximately 20 years, medium size enterprises which will find it virtually impossible to recruit new graduates will appear one after the other. Another reason for such a shock will be sluggish sales in audio products and cars; sluggish sales in fashionable clothes for young people, sundries and the distribution industry; and a sudden decline in wedding ceremonies and in demand for apartment houses and homes, because of the decline in the number of young people.

This will be a mortal blow to Japan's home electric appliance and auto industries, and to its construction industry, and will also greatly influence companies related to plant and equipment investment, so it will soon bring about the bankruptcy of medium-level companies, and it also contains the will present the danger of a crash in stock and land prices. The Ministry of Health and Welfare's explanation of "a natural recovery of the number of births," which has virtually no rational basis, cannot be swallowed whole. Unless the society as a whole immediately comes to grips with moving toward regaining an appropriate number of births, it will become a terrible situation.

The Fatal Defect in the Ministry of Health and Welfare's Forecast: the Next "Baby Boom" is an Illusion

With the 2.107 million of 1973, the second postwar baby boom, as its peak, the number of births has declined continuously up to this year (Table 1). The Ministry of Health and Welfare publishes the estimated future population in the year following each census survey, which occurs every fifth year. According to the lastest estimate, that of 1986, the number of births will increase each year after 1989, but in the last few years the estimated figures and the actual figures have been showing totally opposite trends, and insofar as one sees from the figures reported thus far, 1989 is also following a downward path.

In general, the Ministry of Health and Welfare says that the number of births will recover naturally in the next baby boom because the number of women of childbearing age will reach a peak around that time. But, more than that, the basis for that optimistic outlook is because the ministry is actually estimating it as an aggregate special birthrate (the number of children which a woman bears in her entire life). The number of births is the number of women of childbearing age, multiplied by the aggregate special birthrate. The reason why the number of births has begun to decline recently is less because the number of women of childbearing age has declined than it is because it has been influenced by the fact that the birthrate has declined greatly. In the decade from 1965-74 the aggregate special birthrate was on the level of 2.0, that is, a level close to the condition for a static population, but after that it has been declining each year; for a time it recovered slightly around the early 1980's, but after that it has once more followed a downward path. The Ministry of Health and Welfare anticipates that it will turn upward again, but its grounds are weak.

If one were to inquire how the Ministry of Health and Welfare is estimating the number of births in the next baby boom, in contrast to 8.124 million women of childbearing age in 1986, there will be 8.987 million in 1989, so it will increase by approximately 10.6 percent in that period. The number of births was 1.425 million in 1986, and will be 1.758 in 1998, an increase of 23.4 percent. The above estimate computes the aggregate special birthrate as rising by 10.8 percent in that interval, from 1.75 to 1.94.

It will not recover to more than about 1.57 million births just by the increase in the number of women of childbearing age, even if it is possible to maintain the same birthrate that we have now. Recently the number of births has departed further from the forecast each year because the birthrate has been declining steadily. In 1988 it was 1.66, but it is expected to probably become about 1.62 in 1989. This is all of 0.2 below the Ministry of Health and Welfare's estimated figure of 1.82 for the same year.

Table 2. The Birthrate Will Continue To Decline

	Number of women between 25 and 34 years of age unit: 10,000	Aggregate special birthrate	Number of births (unit: 10,000)
1989	783.9	1.62	127.2
1990	788.9	1.59	125.0
1991	780.0	1.55	120.7
1992	795.4	1.51	120.1
1993	807.9	1.47	119.0
1994	820.9	1.44	117.8
1995	837.0	1.40	117.0
1996	856.9	1.36	116.5
1997	877.9	1.32	116.1
1998	898.7	1.29	115.4
1999	915.7	1.25	114.2
2000	921.4	1.21	111.4

(Data): Future Forecast Research Institute, hereinafter the same

(Note): The future number of births in the event that the latest aggregate special birthrate is extended.

In Table 2 we showed what would become of the number of births during this century if the recent downward trend of the aggregate special birthrate continues as it is. The number of women of childbearing age, between 24 and 35 [as published], which appears in the table is based on Ministry of Health and Welfare data. The total figure for women of childbearing age is a cumulative total for 10 years, so if one multiplies it by the birthrate and divides it by 10, one arrives at the number of births. The result is that if the present decline in the birthrate continues in this way, the number of births around 1998, which is considered to be the next baby boom, will be about 1.142 million. Moreover, it is judged that during this period the number of births will probably never exceed those of a previous year. Furthermore, from the Ministry of Health and Welfare's statistics reported thus far, the number of births for 1989 is estimated at 1.28 million, and this is almost the same as the estimated figure of 1.272 million shown in Table 2. In short, this is because the birthrate has continued to decline in accordance with the trend shown in Table 1 [not reproduced]. A number of births on the level of about 1.1 million is only about one-half the average of about 2.02 million births from prewar times to 1973.

Why Will the Change to Later Marriages Suddenly Change to Earlier Marriages?

Why does the birthrate continue to decline, departing greatly from the expectations of the Ministry of Health and Welfare? Moreover, the Ministry of Health and Welfare says that another reason why the birthrate will recover in the future is because the shift of women to marrying later will stop; but is that actually true?

First of all, it is necessary to explain the aggregate special birthrate from the aspect of actual conditions. For example, when it is an average of two, it shows that the vast majority of women will bear two children during the course of their lives. The fact that it has recently dropped to 1.6 means that already they do not bear two children on the average, that we have approached a situation in which "one child or two" is split about even.

When we compare this with the time when two children were average, there can be cited as prominent special characteristics from the phenonemon side the fact that the initial age for marriage for both men and women, has been delayed by almost two years, and that the initial age for an arranged marriage for both men and women has been delayed by more than two years compared to love marriages. That is, in the period from 1965 to 1974 the average age of women when they married for love was 23.5 years, but now it has shifted to 25 years, similarly, the age of women when they marry by arrangement has shifted to 27.5 years. In each case, the men are 2 or 3 years older than the women. The age of men in arranged marriages now exceeds 31. Even judging from this, the decline in the birthrate is certainly due in great part to the change to later marriages for both men and women. The Ministry of Health and Welfare estimates that Japan will suddenly revert to early marriages beginning in 1986, but there is no explanation whatsoever as to why this will happen.

The reason why a change to latter marriage has recently progressed rapidly with both men and women will become very clear if one investigates the conditions for arranged marriages. That is, the conditions for a man which women consider as a marriage partner are such things as being about 30 years of age, having a minimum income of Y250,000 per month, and owning a condominium. But because of the rise in condominium prices from 1986 onward, of late, in the Tokyo area, even a previously owned condominium costs at least Y35 million. The amount which a 30 year old man can realistically borrow is about Y20 million. Consequently, men who satisfy the conditions for an arranged marriage are limited to those who can raise, by savings and parental assistance, Y15 million as a down payment on the purchase of a condominium and a minimum of Y5 million for wedding expenses, a total of Y20 million.

At present, in the majority of arranged marriages the woman take the initiative. This is partly because the number of men exceeds that of women by more than it did formerly, but one reason is that it is very difficult for men to satisfy the conditions that women expect. Moreover, in the Tokyo area a Y35 million condominium is in the suburbs, a newly built one on a comparatively good site is more than Y50 million (Table 4) [not reproduced]. One could may say that this is a major reason why it is unavoidable that both men and women marry later. In a realistic society there is no way for late marriages to become reversed naturally and turn toward early marriages as the Ministry of Health and Welfare hopes. It is precisely this worsening of the housing situation, which

has become the greatest cause of the declining birthrate since the baby boom of 1973, and of the change to later marriages.

The Source of All Evils is the Worsening of the Housing Situation

To begin with, if we look at the proportion of a starting salary taken up by rent on an apartment, in the period from 1965 to 1974 it was 30 percent, but after 1975 it increased step by step, and recently it has gone over 50 percent (Table 3) [not reproduced]. In the period from 1965 to 1974, a few years after starting work if a man put one-third of his salary into rent, he was able to support a wife and children on what was left, so he could get married at 25 or 26. Now, even in a love marriage, if they rent an apartment it is absolutely impossible to live on just the man's salary, so they are forced to both earn money for a time. Consequently, at present love marriages do not lead directly to a rise in the birthrate. Furthermore, this has also become a cause of DINKS (double income no kids).

The former pattern was to first begin married life in an apartment, next move to a condominium, and in due course change to a regular house. Table 4 [not reproduced] shows the changes in the price of condominiums, and its multiple of the annual income of a man about 30 years old. Until 1973 it was possible to purchase a condominium for about 4.5 times the annual income, but the price rose sharply after the oil shock, and because of this the conditions allowing a young man to buy a condominium worsened at one stroke. This has become a big cause of the decline of the birthrate each year since the period from 1975 to 1984. Living in an apartment presents many reasons why one must hold the birthrate down to one. Moreover, recently there are also many apartments where the lease requires one to leave if one becomes pregnant. Even if one can move to a condominium, it will not be large enough to enable one to have many children. This is further spurring on the decline in the birthrate.

In the period between 1965 and 1974 there were also many cases in which, after purchasing a condominium, in their mid-thirties couples moved to a large regular house, and there had one or two additional children, but since the period 1975 to 1984, the sharp rise in land prices has made it difficult to move to a regular house. That can be said to have reduced the cases in which a woman has a second or third child, and to have lowered the birthrate as a whole. The above is the case centered on the Tokyo metropolitan area, but since even in other large urban areas young people have come to live chiefly in condominiums since the period 1975-84, and over 60 percent of all young men find employment in large urban areas or the seats of provincial government, so the housing conditions are not all that different from those in the Tokyo metropolitan area.

More Serious Than in West Germany!

The nations of Europe have suffered from low birthrates, but now the birthrates in such countries as West Germany, France, England, Norway and Sweden have all begun to turn upward (Table 5) [not reproduced]. The same is true of America.

In Asia, the Republic of Korea formerly had the abnormally high birthrate of 38.8 (per 1,000 of population). It has been brought under control gradually, but even so, at present it is all of 50 percent higher than that of Japan. In West Germany, America and the Soviet Union the fact that the birthrate of caucasians is still relatively low remains a problem, but a brake has been put on the decline in the number of births for the society as a whole. If Japan's birthrate were to continue to decline in this manner, and were to fall to an aggregate special birthrate of 1.29 around 1998, it would come to 9.3 when converted to the birthrate per 1,000 of population. For an advanced country this would be an unprecedentedly abnormal condition which falls below even the 9.5 which West Germany formerly recorded in 1984. In short, any kind of advanced nation whatsoever is devising measures to avoid the kind of abnormally low number of births that will endanger its own future.

Japan's population is approximately one-half that of America, West Germany and France have populations of 55 to 61 million, one-half the scale of Japan. The scale of their GNP's is also about that ratio. However, as shown in Table 6 [not reproduced], when we look at 1988, the number of births in America was 3.91 million, approximately triple that of Japan, and the number of births for the Republic of Korea, which has a population of 42 million, was 650,000, one-half that of Japan. That is, it is expected that if Japan continues this kind of low number of births for a long period, in due course it will once again be left far behind by America in the capacity to develop technology, and that, moreover, the Republic of Korea, which now has only 5 percent the scale of Japan's GNP, will in due course develop into a country with a GNP one-half the size of Japan's.

In any case, if the number of births declines in this way in the future, it will be impossible to avoid a decline in Japan's capacity to develop technology, and that will bring about a worsening of the trade balance, a weak yen and inflation.

Expenditure on Cancer Treatment Would Be Double Expenditure on Defense

The decline in the birthrate since 1975 is thought to be caused in large part mainly by the deterioration of the housing situation, but that alone cannot be said to be the entire cause. There is also the fact that women have come to dislike having many children and to prefer having a small number, and, just as the Ministry of Health and Welfare says, there is a greater participation of women in public affairs. In addition, it also appears as though infertility and miscarriages, in which women cannot bear children even though they want to, have also

increased. It is difficult to prove this directly, but it is easily inferred from other phenomena.

Before 1975 the proportion of deaths by cancer was less than 10 percent of total deaths, but the rate of occurrence of cancer has risen rapidly since the time that pesticides and food additives were used in great quantities and the degree of dependence on imported cereals increased. In 1988, 25.9 percent of deaths were caused by cancer, and it has continued to be the leading cause of death since 1981. That is, it is clear that if residual pesticides first generate atrophy in a child, and are taken into its body throughout its lifetime, they will produce cancer. Within the body the increase of cancer and the increase of miscarriages have the same cause, so it is inferred that the two have a deep relationship. Since 1975 the proportion of deaths by cancer has risen by a ratio of about 0.5 percent per year, so if it goes along with this kind of trend, it is expected that in the year 2000, 31.9 percent will die of cancer, and in 2010 36.9 percent will die of cancer (Table 7) [not reproduced]. This suggests that in the future miscarriages, too, will occur at a higher rate than at present.

Furthermore, total expenditure on cancer-related medical treatment in 1987 was Y1.4891 trillion, which comes to Y7.464 million for each person who died of cancer. Therefore, if we make an estimate based on the proportion of cancer-deaths among the number of deaths in the future, and the growth of expenditure on medical treatment (approximately 5 percent per year), the expenditure on cancer treatment will be Y1.9732 trillion in 1990, and will rise suddenly to Y4.8260 trillion in the year 2000, and to about Y7 trillion in 2010. At present people's lifespan has been getting longer, so the number of deaths per year is on the level of 790,000, but this already begins to be leveling off, so when we enter the 21st century it will reach a point at which 1.7 to 1.8 million people will die each year, which is close to the number of births in the past.

Japan's rate of cancer-caused deaths has also now reached the highest level among advanced countries. There is hope that cancer may be conquered in the future through medical progress, but cancer is proliferation of cells in which the normal control function of genes inside the cells has been destroyed and become disordered, so one cannot very well cure it just by taking a specific remedy. Even if a good method of treatment were to be developed in the future, is is estimated that treatment would cost a huge amount. This manifests itself as an increase each year in the expenditure on treatment for each cancer patient. Consequently, the Y7 trillion for expenditure on cancer treatment around the year 2010 is certainly not an impossible figure if things continue as predicted. This would correspond to almost double current expenditure on defense, or 2 percent of GNP.

In the case of Japan there is a possibility that along with a rapid increase in the aged population, cancer will become an illness which ruins the country. The medical treatment industry will probably thrive, but it will put pressure on general consumption such as automobiles and home electric appliances, and will, in due course, cause the competetiveness of all industries to degenerate. It can be said that control of cancer has an important meaning both for the purpose of not allowing the national power to decline in the future and for the purpose of restoring the number of births.

Economic Vitality Will Be Lost: The Blow to the Automobile Industry Is Near

Even though the recent number of births has declined abnormally, at present young people reaching adulthood will soon approach the peak of the second postwar baby boom, so people in general cannot sense that it is exerting a serious influence on society. But already one kindergarten after the other has been forced to close, and we are confronting a decrease, year by year, in the number of students who enroll in private schools for preparing for private middle school entrance exams. It is only a matter of time before private schools and preparatory schools decline into depressed industries.

And the abnormal decline in the number of births will, in due course, go on to influence, in turn, private universities and young-people oriented industries in general, this will include the automobile industry. That is the pattern shown in Table 8 [not reproduced]; if we view the 1.811 million births of 1965 as the standard, the approximate position which each industry will assume now and in the future will be clear. Young people of the time of the second postwar baby boom will hit the peak in marriages just about the year 2000, so that will be this century's last hurrah of demand centered on young people.

This will be a change in final demand, but it will appear one step earlier in such basic industries as the industrial machinery and construction industries. That is, the slump in sales because of the declining number of young people will naturally be expected from past fluctuation in the number of births, so each automobile maker will begin to restrain plant and equipment investment from about 1995. The boom in construction of hotels and apartment houses will also completely pass around the time that wedding ceremonies hit their peak. The peak of university graduations will be earlier than that, around 1995, and will decline each year thereafter, so it means that demand for office space will also go on declining in due course.

The Minus Effect on the Economy Will Emerge in the Second Half of the 1990's

Table 9 quantifies in a very simple manner the influences on the economic side from the second half of the 1990's past the year 2000 because of the decline in the number of young people. Table 8 [not reproduced] merely converted to a pattern in a simple manner the process of growth of young people, but Table 9 shows the grand totals for major items in the years 2000, 2010 and 2020. It shows the number by which weddings will decline, the figure for each year's decrease of young people between 20 and 40 years of age (against an average of 2 million), and the amount by which demand will decrease in private-sector housing construction.

Table 9. The Declining Effect on Consumption

	Year-2000	Year-2010	Year-2020	Notes
Amount of decrease in weddings (unit: 10,000 couples)	0	-24	-40	(1)
Amount of decrease in young population (unit: 10,000)	-100	-500	-1,270	(2)
Amount of decrease in private-sector housing construction (unit: 10,000 houses)	0	-24	-40	(3)

Notes: 1. The decrease in weddings compared with the peak year of 2000; 2. The young population is the aggregate of the number by which each age group of the population from 20 to 40 years of age is lower than 2 million; 3. The figure for housing construction is the amount by which housing demand declined accompanying the decline in the number of marriages (the same as the figure for weddings).

It is particularly necessary to note the decrease in the number of young people in 2020. When we look at this year, there will be 1.114 million young people 20 years old, as estimated in Table 2 to be born in the year 2000, and there will be 1.616 million people 40 years old who were born in 1980. Consequently, in that year the number below the average of 2 million men [as published] who have reached maturity each year up to then will reach a grand total of 12.7 million. This means a society in which adults will be fewer by all of 19.8 percent compared with the present population of 80 million between the ages of 20 and 60. That is, the decrease in the number of young people in the year 2020 is based on rate of birth decline from now to the year 2000, as in Table 2, and the impact which it will exert on the society in general will be rather large. The year 2010 reflects the number of births based on present predictions.

In regard to the decline in demand, in weddings we take it as a decline in demand of Y15 million per couple. We assume that the decline in young people will be an average annual decline in demand of Y2 million per person. This also includes children becoming university students and having their parents buy them a car. Construction of private sector housing shows only the amount of decrease in rental houses and two-family houses because of the decrease in marriages. The decrease in marriages will be reflected directly in these areas. The decrease in demand based on the above assumptions will be on the level of Y2 trillion in the year 2000, but it will go on increasing rapidly to Y16.8 trillion in 2010 and Y36.7 trillion in 2020.

If we assume that GNP will go on increasing after this by an annual rate of 3 percent up to the year 2000, by 2 percent from then until 2010 and by 1 percent from then up to 2020, and look at the decrease in demand as a proportion of that, it will produce a minus effect of -0.38 percent in the year 2000, -0.26 percent in 2010 and -5.2 percent in 2020. However, according to the present trend, in the year 2000 the number of births and the number of deaths will become almost the same, and Japan's population growth will completely stop, so per capita national consumption will rise. But according to Table 10, the amount of decline in various demands is fixed by item, so it would probably be closer to the actual situation to judge the influence from the decline in the number of young people after 2000 by a comparison with the figure for GNP in 2000. If we take a look at it from this kind of viewpoint, it comes out to be a fall in GNP of -3.2 percent in 2010 and -6.9 percent in 2020.

Table 10. The Minus Effect on GNP

	2000	2010	2020
Amount of decrease in consumption (unit: Y1 trillion)	-2.0	-16.8	-36.7
Proportion of future GNP (unit: percent)	-0.38	-2.6	-5.2
Proportion of GNP in the year 2000 (unit: percent)	-0.38	-3.2	-6.9

Notes: 1. The total of calculating the figures in Table 9 taking the figures to be Y15 million per couple for wedding ceremonies, Y2 million per person for consumption by young people and Y13.27 million per unit for private-sector housing construction (the total amount for private-sector housing construction in 1988 divided by the number of units constructed); 2. The ratio of GNP is the proportion of expected GNP in the case in which GNP is assumed to grow by 3 percent each year from 1988 to the year 2000, by 2 percent each year from then until 2010, and by 1 percent each year from then to 2020. In such a case the GNP will be Y528.9 trillion in 2000, Y644.7 trillion in 2010 and Y712.1 trillion in 2020.

Naturally, this estimate does not include such things as the restraint on hotel construction and restraint on plant and equipment investment in automobile-related industries, which will probably begin earlier. Even in home electric products, demand for things which, like audio products, become an object of demand from about middle-school age will reach its peak at a still earlier time, so it can be seen that the restraint of plant and equipment investment will come at least earlier than in the auto industry. When we consider the industry-related ripple effect in this manner, it can be seen that the drop in GNP each year from about the year 2000 will be the most important thing.

The Future of the Aged Society

There will be still other influences of the abnormal decline in the number of births.

There naturally emerges the opinion that even if young-person directed demand drops, it will become a society of old people, and industries related to old people will flourish, so what is wrong in taking up the slack in demand in this way. That aspect certainly exists. But Japan's industrial competitiveness is strong, and it can enjoy the advantages of a strong yen, because the results of enterprises which are supporting the high tech industries of automobiles and home electrical equipment are satisfactory, so they can invest adequate expenditure on plant and equipment investment. Would Japan be able to maintain its international competitiveness as it has up to now if the automobile and home electric appliance industries deteriorated while old-person related industries, nursing homes, for example, flourished greatly and cancer treatment, and so on, increased rapidly? It means that, while recovering funds presently invested overseas, a society centered on old people would, in time, fall, like America, from a major creditor nation to a debtor nation.

Second, the fact that formerly the number of births fluctuated from 1.8 to 2 million, but this year has already fallen to the 1.2 million level also produces a problem of quality. When we enter the 21st century, the decline in the quality of university graduates will probably become impossible to ignore. This decline of almost 800,000 in the number of births is equivalent to the indiscriminate extinction of 40 percent of the students of first-class universities. In the future students from universities of lower rank will fill up, in sequence, the vacancies of higher ranking universities, so even with nominal graduates of first-class universities, it will become impossible to say that the level of scholastic ability will remain first class. This will lead, in particular, to a decline in the quality of excellent students majoring in technical fields for high-tech related industries.

After the year 2000 Japanese companies, too, will approach the aging of staff, increase in the amount of salaries and increase in the burden of retirement allowances which are troubling many present-day American companies, so it is certain that sluggish sales will worsen enterprise revenues at one stroke. This will invite a decline in export capacity, so the worsening of the balance of trade will produce a weak yen and inflation. It will be impossible to avoid raising interest rates in order to prevent this. At the same time, it will also lead to a plunge in land prices, which were propped up by the present excess money and high stock prices. Such things as a decline in demand for homes and office space will cause the price of land to fall due to the decline in real demand.

If the number of births continues at or below 1.2 million during this century, the blow to Japan's economy after 2010 will probably be still more severe. In short, for the number of births, which has been about 2 million up to now, to go on for a long term at or below 1.2 million would mean that demand for such things as cars, home electric products, hotels and homes would, over the long term, go on shrinking each year toward an economy of a scale 40 percent lower than the present.

In the extreme case, that percentage of companies, too, would go bankrupt and disappear. In terms of macroeconomic reality, the cause would be different, but one need only imagine the kind of conditions that caused present day Japan and America to reverse positions.

Collapse of the Pension and Health Insurance Systems

It is also impossible to ignore the influence which the abnormal decline in the number of births will exert on the pension and health insurance systems of the future. When the Ministry of Health and Welfare explains pensions it often says that when it comes to about the year 2020 one old person will have to be supported by two or three persons of productive age, but that statement assumes that the number of births in the future will average 1.57 million. If this fluctuates from 1.2 million to the level of 1.1 million, it will mean that in the future one old person will be the burden of 1.8 or 1.7 persons.

Such being the case in the long run there will not be enough workers to support the current pension and health insurance systems. Like it or not, it will probably become necessary to do such things as moving the age at which people begin to receive pension payments from 60 to 65. In addition, we will also not be able to maintain such things as the system of cost of living adjustments for pensions and the system of free health care for the elderly. The reason why the Ministry of Health and Welfare is diverting attention from the present abnormal decline in the number of births by saying that somehow or other the number of births will recover in the future is probably because for the present it wants to avoid having the public notice this important matter and having it become a big social issue.

Because even if it tries to make the number of births, which is really showing an abnormal decline, recover its original level, it has no way of doing this. If it reaches the point where the government brazenly deceives the people, the future degeneration of the nation will already be unavoidable. The figure of about 1.6 million, which the Ministry of Health and Welfare says is the minimum average number of births, is probably the minimum line for maintaining the Japanese economy at a fixed level in the future as well.

Subsidies for Bearing Children Will Become Necessary in Order To Restore the Number of Births...

The first idea that occurs to one in regard to the decline in the number of births is relaxing the acceptance of labor from overseas. However, while that would be effective in regard to unskilled labor in export industries and the construction industry, it would not have too much effect in regard to the long-term stagnation of domestic demand, which we are discussing in this article and which might begin as early as the 1990's. Furthermore, accepting a large number of technicians from Southeast Asia, etc., is conceivable as a method of making up the shortage of excellent engineers, but such a thing as Japanese enterprises every year snatching tens of thousands of people who had been educated by investing

large amounts of their nations' money would become an international problem, so this does not appear to be a solution.

In France, for example, in order to restore the number of births the government paid 578 francs per month for the second child and 741 francs per month for the third child; that is, a total of 1,319 francs if one bears three children. If converted to Japanese yen they paid somewhat over Y30,000 every month. In terms of real purchasing power, it comes to about double that amount in yen. If Japan were to try to recover close to 200,000 births by this method, annual child allowances of approximately Y1 trillion would become necessary in the future, so it would become a considerable burden on government finances. This method is probably unavoidable as a temporary measure until drastic measures are established, but there are problems in depending solely on this.

How can one solve the abnormal decline in the number of births in a drastic manner? If we list the conditions which should be improved:

1. From a form of living centered on condominiums, make it possible for the general population to own single-family houses.

2. Arrest the change to later marriages, and return the age at which people first get married to 25 to 26 years old.

3. Create conditions which make it possible for young people to settle down in the provinces.

4. Greatly reduce the residual pesticides on such things as cereals, eggs, milk and soybeans, and remove from society food additives and other factors which are taken to be a cause of infertility.

These are natural things for the purpose of restoring the number of births, but every one is actually close to impossible.

Increased Provision of Large Tracts of Residential Land and Elimination of Pesticides Are Being Hastened

However, it will not be impossible if we reform Japan's social system drastically in the following manner. The policy in order to do that is ....

- Greatly relax restrictions in order to promote the change of agricultural land in urbanization adjustment districts to residential land.
- Promote in a big way elimination of pesticides in agricultural production, and make up increases in production costs by considerable subsidies from the government.

Even in places where the price of land is high, as in the Tokyo area, the agricultural land in urbanization adjustment districts is traded among farmers for about Y10,000 to Y100,000 per tsubo [3.954 square yards], so if we promote changing this to residential land, it will become possible to divert 500,000 to 600,000 hectares of agricultural land to residential land, and even if the price goes up somewhat, it will become possible to obtain a house with 50 tsubo of land for about Y15 million, and it will be possible to get into an apartment in the suburbs, too, if one pays Y50,000 to Y60,000. If the housing situation is improved to close to that in the latter half of the 1960's, the age at which people get married will become earlier, and those people living in condominiums will probably be able to move to a house with land in the suburbs.

Moreover, if this is also applied to provincial districts, home construction will become active, and that will increase employment opportunities, and will cause young people to settle down in the provinces. If we assume that we were to turn into residential land the entire almost 900,000 hectares of agricultural land that are currently the object of acreage reduction because of overproduction of rice, it calculates out that 13.50 million homes, with 200 tsubo of land each, could be constructed thoughout Japan. If they are constructed in 15 to 20 years, one out of every two ordinary households would be able to move to a home in the suburbs with 200 tsubo of land, and the private-sector and individual demand would come to almost Y10 trillion a year.

If this began to function, the government would be able to reduce public-works projects, so a margin of several million yen would be produced on the government finance side. Therefore, if this were invested in the elimination of pesticides in agricultural production, it would be possible to enhance the safety of food without producing a new burden for government finance, and full-time farmers and agricultural cooperatives would also be able to grapple with stable agricultural production by means of the subsidies. Japan's agricultural production is about Y10 trillion, and if pesticides are eliminated across the board, production costs will rise by about 30 percent, so Y3 trillion will be needed. This is smaller than the effect on private-sector and individual demand from the above-mentioned change of agricultural land into residential land, so it can be said to be a bearable burden in terms of government finance. Furthermore, government-finance expenditure of almost Y3 trillion is also less than a future expenditure of Y7 trillion for cancer treatment, so one may say that it is inexpensive for the cost of maintaining national strength.

* Solutions to Labor Shortage Examined

902A0057A Tokyo NIHON KEIZAI SHIMBUN in Japanese 19 Dec 89 p 1—FOR OFFICIAL USE ONLY

[Text] When will the labor shortage end? During the past three years of economic prosperity, the labor shortage has had various repercussions on the manufacturing industry. While generally seen as restricting production and management activities, it can also affect the economy positively, as when it leads to investments in labor-reduction equipment or creates unexpected demands.

Expanding Market for Robots

These days, convenience stores in the greater metropolitan Tokyo area regularly sell out of sandwiches and other bread items as evening approaches; their customers are businessmen and women office workers. It is a phenomenon created by the labor shortage since more and more workers on overtime are buying these bread items for late-night snacks. Some call these people "overtime bread." [as published] With sandwich sales understandably up, Ito Bakery, for instance, is confident that it will achieve "two digit growth."

The number of companies and stores relying on vending machines to sell bread items is also growing steadily. It is expected that a record high 720,000 such machines will be shipped this year. The producers, too, are feeling the effect of the labor shortage, relying as they must on vending machines to sell their items.

According to a survey conducted by the Bank of Japan, white-collar employees engaged in manufacturing averaged 8.5 working hours a day (July-September). This is a 30-year high. Prosperity has ensured a constant flow of work orders, but securing a labor force to match it has been another matter, and a dramatic increase in overtime work has created new demands.

In August of this year, Obayashi Group developed an unmanned way of constructing high rises, in which computers engage silently roaming robots in a full series of routine construction work, from welding steel frames to installing walls and floors.

Last October, the labor shortage rate among construction workers like carpenters and steel framers stood at a record 10-year high of 4.7 percent; and construction firms are now racing to develop labor-reducing building methods.

Nissan Motors plans to build a No. 2 Plant in Kyushu by fall of 1991. The plant will introduce 200 robots at the final point in assembly that traditionally requires the greatest number of assemblers. The introduction of these robots will mean that 30 percent of all assembly work in the plant will be automated. Toyota, too, will take five years and about 100 billion yen to increase its automation rate from the present five percent to 30 percent.

At its plant in Tochigi, the toymaker Bandai relies on CAD/CAM [computer aided design/computer aided manufacturing] to automate everything from design to processing of metal molds. To combat shortage in personnel, Secom Co., Ltd. is emphasizing the development of robots that will replace security guards. Labor shortages [in these cases] have spurred investments in labor-reduction equipment, which, in turn, has led to greater prosperity.

This year's production of industrial robots is sure to reach 450 billion yen, which is nearly 25 percent higher than last year's total. There are voices that say that should labor shortage continue unabated, "the robot market will expand to 1 trillion yen in five years."

Increased Employment Will Bring Price Hikes

"For the time being, we can easily survive on the balance of unfilled orders." Such an optimistic attitude pervades the construction industry today. At the end of September, the total value of unfinished construction projects (of 50 major firms) stood at 18.33 trillion yen, which is 40 percent better than the level reached two years ago. Even with the present rate of project completion, there will be enough work left around to last more than a year.

In the textile industry, a new synthetic fiber for clothing material, is gaining popularity. It is said that while the labor shortage has forced delays in the production of this fiber, such delays have actually helped to prolong the boom the fiber has created.

How will the labor shortage affect future prosperity? What would happen if 1 million workers were to suddenly appear all over Japan? According to a model put forth by "Needs Economy," a macroeconomic databank of the NIHON KEIZAI SHIMBUN, such a sudden influx in the work force would raise next year's economic growth rate by 1.2 points, but would also raise consumer and wholesale price indexes by about 1 point each. This is because it is believed that any increase in income will create new demands but these new demands will also lead to price hikes. Moreover, two years after such a sudden increase in the labor force, inflation would accelerate and, in response, economic growth rate would drop by 0.7 points.

"Had there been a steady supply of labor all along, the prosperity we are now enjoying would have been much more pronounced, but short-lived. Labor shortage is actually helping us stretch out the prosperity," says Suguru Takagi, head of the Economic Research Department at Fuji Comprehensive Research Center.

For the Moment, Little Chance of Labor Shortage Easing

It is true that the severe labor shortage has cast "shadows" in the forms of delays in shipment and wage hikes. Shoichiro Toyoda, president of Toyota Motors, is concerned that the "labor shortage will become permanent." Takeo Shigemitsu, president of Lotte, also worries about a protracted labor shortage: "In areas like the food industry which are necessarily labor intensive, there is, at the moment, no prospect of the labor shortage easing."

One cannot deny, however, that aspect of the labor shortage which has served as a buffer in holding down any sudden increases in production. Private forecasters predict that next year's economic growth will be around the 4 percent level. In this sense, we can call such a prediction for continued prosperity moving ahead at cruising speed a positive "effect of the labor shortage."

* SANKEI SHIMBUN Takes Close Look at Labor Shortage

* Serious Shortage in 90's

902A0069A Tokyo SANKEI SHIMBUN in Japanese 7 Jan 90 p 5—FOR OFFICIAL USE ONLY

["Opinion Up" column by Sankei editorial staff writer, Yasuo Iida]

[Text] **Large-scale Decrease in Young Labor Force**

The curtain has opened on the nineties. The Japanese economy has started the decade in splendid condition, supported by strong facilities investment and solid expansion of domestic demand. The expanding prosperity has entered its fourth year and in June, its vigor will have overtaken the 42-month Iwato boom. The economy of the new year has opened with wide fluctuations in stocks and exchange rates but overall, the majority view is that "great prosperity" will continue this year too. If so, it will certainly be the second largest boom since the war.

So long as there is no great outside shock, stable growth is expected. Even so, that does not mean there are no unstable elements. A serious worker shortage in addition to the U.S.-Japanese structural friction and worry about inflation will be major barriers.

Among these, the worker shortage has begun to worry company management, and a conspicuous number of companies have been driven into bankruptcy because they could not hire enough workers. The highest increases in starting salaries since the late seventies-early eighties are being seen to lure workers.

Looking at today's worker shortage by industry and region, the seriousness has increased particularly in the construction industry, manufacturing industry, and service industry. However, it has been the posture of companies to promote reduced management with decreased personnel for the past 10-odd years, but this changed after the advent of the high yen, and the worker shortage became more severe with the increase in production volume. This increased the demand for workers, but the worker shortage probably still seems to be a transitory phenomenon.

If the worker shortage is viewed as real, more serious consideration should be given to the issue of employment of the elderly and women.

So, it can be said that Japan still has not entered the age of a full-scale worker shortage. However, it will undoubtedly face the era of a serious worker shortage in about the mid-1990's. The numbers give a graphic account of that.

According to the future population estimates of the Ministry of Health and Welfare, five years from now, from 1995 to 2000, the 25 to 29 age group will be reduced by 4.43 million. The 30 to 54 age group also will be reduced by 1.09 million. However, the 55 to 64 age group will increase by 3.26 million and there will be a large-scale increase in those 65 or over of 6.19 million. These statistics are evidence of our rapidly aging society.

The Health and Welfare Ministry estimates that the labor population will increase by 2.75 million over the next 10 years. However, the elderly account for 84 percent of the increase, with an increase of 2.3 million for those over 55. As a result, in the year 2000, the elderly will account for 23 percent of the labor population.

The outlook for employment now in the 1990's is for a large-scale decrease in young workers and a large-scale increase in older workers. To realize a vital economy and society within these parameters, the creation of a social system which can use the capabilities of the elderly to the fullest is a very important policy issue.

At the same time, the employment of women in the work force, and hiring the impaired who want to work but have limited opportunity should be considered an issue for the 1990's when the labor shortage will become intensified.

Changing Retirement Age to at Least 60 Most Important

It will become increasingly important to employ the elderly, but first of all, an increase to 60 in the retirement age must be accomplished. Although a retirement age of 60 or over has become the norm at 61.9 percent, close to 40 percent now have a retirement age of less than 60. It is the responsibility of the government, labor, and employers to adopt this change quickly.

The assurance of employment until the 65 age level will be necessary. The Japan Federation of Employers' Associations (Nikkeiren) considers that "the assurance of employment for those in their early sixties is important to ensure continuous economic growth without inflation." Meanwhile, it can be said that having been negative toward the employment of the elderly, the slower that management is to act, the more employment of the elderly will increase in importance.

At the same time, the elderly should think about it themselves. They should act aggressively in serving society with their skill and wisdom acquired from long experience, and not be passive. Remaining active in society in itself will make life worth living.

Secondly, there is employment of women in the work force. The number of women working today has reached 16.7 million, accounting for 36.8 percent of the total number of workers.

While acknowledging that we are in "the age of women," in order for them to take their place as an indispensable part of the work force, "child raising," "nursing," and "housework," which have been a great burden for women, must be addressed. In so far as women who want to continue working for a long time are increasing, a "maternity leave system" and a "nursing leave of

absence system" have become indispensable conditions. A clear tendency has been seen for superior talent to be attracted to companies which provide these benefits.

Hiring the Impaired Who Want To Work

Thirdly, there is the issue of employing the impaired. The number of impaired who complain of their problem—that they want to work but there is no place to work—is literally "go man" (about 50,000) [pun] just at the windows of the public employment security offices.

It is a great loss that while the impaired have the desire to be self-supporting in an occupation, they cannot be accepted at a place of employment just because of their disability.

There is a legal quota for employing the impaired. However, 70 to 80 percent of companies have not even achieved that. With this in mind can it be said that there is a right to cry about a worker shortage?

In the first paragraph of the ILO [International Labor Organization] proclamation, it says "Work is not a product." The work philosophy lies in the awareness of workers as human beings. Human talent should be called by its other name of "human resources." There is a sense that such an attitude by management lends credence to the ability to surmount the worker shortage.

* Solutions Explored

902A0069B Tokyo SANKEI SHIMBUN in Japanese 7 Jan 90 p 7—FOR OFFICIAL USE ONLY

["Comments on Current Economic Topics" column by Soteki Inoue, Marubeni international economics research section chief]

[Text] **Two Time Periods for Economy**

In considering what the economy will be like in the future, it is necessary to consider two time periods—the short-term and the medium to long-term.

When dividing the time period like this, generally the focus is on purchasing power for the short-term outlook and on supply trends for the medium to long-term outlook.

As is well known, when considering the economy about a year from now, individual consumption and housing investment become the center of purchasing power in the household category. In the business category, it is facilities investment and inventory investment and in the government category, government consumption expenditures and public investments probably play the major role. In addition, exports often are looked at as the purchasing power of foreigners.

As opposed to the question of purchasing power seen in this short-term outlook, the issue of supply power such as whether or not there is a surplus in the labor force or the safe guarantee of energy resources including oil is emphasized in the medium to long-term outlook.

The short-term outlook for 1990, naturally as before, is a discussion of purchasing power trends divided into bullish and bearish. Specifically, what individual consumption will be and whether or not business facility investments will continue with the same high increase become the topics.

While realizing here that purchase power trends must be fully studied, note should be made that the problem of supply power is also important. In particular, the labor force in which a worker shortage has been attributed cannot be ignored even in the short-term outlook. The following two points are the reasons.

First of all, once purchasing power enters a good cycle, the normal pattern is that expansion will continue for several years so long as no particularly strong brakes are put on it from outside. Additionally, now it will not be necessary to be forced to turn to a strong tight money policy due to a worsening trade balance or the advance of inflation as in the past.

Secondly, the labor force supply, which has been pointed out as a fundamental production element, is necessary and indispensable for economic growth. However, the current shortage in the labor force in Japan is a very serious situation. The effective job openings-to-applications ratio, which is a representative figure indicating the supply and demand relationship of the labor market, for close to the past two years has changed to a shortage of over one and this figure probably has become even larger recently.

For these reasons, the issue of supply, particularly the labor force, rather than purchasing power, must be investigated in the short-term outlook for this year. However, here the possibility is predicted of a 5 percent increase over the previous year in production in the 1990 Japanese economy, even without a rise in prices. This will be accomplished by implementing the following labor management policies.

Introduction of Robots

First of all, there is the introduction of labor-saving instruments and robots. In labor-saving investments, ultimately it is people who are closely investigated in the labor-saving process and there are limitations to saving labor. That is to say, it should be noted that labor-saving investment in itself is a valuable worker shortage countermeasure.

Secondly, the increase in the importing of products from expansion of production overseas can be cited. A reversal from previous product imports has seen a change to imports for which Japanese companies themselves "shop."

In fact, Japanese manufacturers, volume sales stores, trading firms, and foreign capital companies in Japan are

shifting to an import structure in which they aggressively shop through joint ventures. The move to deal with the domestic worker shortage by depending on new labor forces overseas probably will increase further.

Thirdly, there is an increasing dependence on the foreign labor force within Japan. A Japanese rule forbids foreigners to work at Japanese work sites. However, in reality about 100,000 foreigners work in Japan. It depends on the point of view of the rules, but Japan is lenient concerning this foreign labor force. Although there probably are limitations to this leniency, it also is certainly a labor force shortage countermeasure.

The economic outlook for this year will be influenced by the extension of working hours and increases in work efficiency, etc., but it should be noted again that this issue of labor force limitation is the biggest problem facing the Japanese economy this year.

* Changes in Acceptance of Foreign Laborers Urged

902B0063A Tokyo SEKAI in Japanese
Jan 90 pp 40-50—FOR OFFICIAL USE ONLY

[Article by Toshio Watanabe: "Japan's Worst Decision on Foreign Labor"]

[Excerpt] [Passage omitted] **How To Cope**

It is obvious why young Asians in Japan are employed under conditions worse than what their skill levels would imply, and why they are even frequently made the objects of contempt. It is simply because they are "illegal workers." As I have said many times, in Japan today the hiring of foreign unskilled laborers is forbidden in principle. However, at the same time tourist, student, and commercial entry visas can be obtained without difficulty merely by supplying the necessary documents. As I have said already, many of the people who enter the country on these visas work illegally and unlawfully overstay their visas, but the Immigration Office is completely incapable of controlling this. It is precisely the fact that illegal workers are illegal that is the reason why the actual conditions are not grasped; why surveillance falls short. More than a few people have fallen prey to labor recruiters and brokers. If the status quo is merely allowed to continue, it will be impossible to avoid the development of a "two-tier labor market" in which the bottom of Japan's employment structure is made up largely of Asians. It is ironic that the ghettos feared by the so-called seclusionists are being steadily built up as a result of the policy of closing the country to unskilled workers.

As far as the problem of foreign laborers is concerned, it must be commonly recognized that Japan currently is making the worst possible choice. A revolution is necessary in people's conceptions.

First of all, the illegal labor market must be eradicated. To accomplish this, it is essential to open up channels for the legal entry of so-called unskilled laborers, and to make efforts to receive them as legitimate workers. Even I am prepared to be roundly criticized by the seclusionists, and I do not want to argue for a literally "open country." There is not a single country in the world that has no restrictions on the entry of unskilled workers. While in principle maintaining an open door to foreign workers, it is necessary to devise a system which clearly defines particular terms of their stay, such as our capacity to accept foreigners and the length of their stays, while above all guaranteeing equal wages for equal work.

Even I am not unaware that many people have expressed the fear, grounded in the experiences of Europe and America, that even if immigration limits are established, the pressure of emigration from countries with surplus labor will ultimately render those limits impossible to maintain; and that even if time limits are set, there will be no choice but to forcibly repatriate workers who want to remain beyond their deadlines. But I feel that these "negative experiences" must be analyzed thoroughly, and measures must be taken which are as appropriate as possible.

What must be emphasized again is that the reason the number of illegal foreign workers has increased to such a degree is above all the fact that, as stated earlier, there are many people in Japan who hire such workers. To burden these employers with the responsibility of observing the status of foreign workers, and to use the employers to control the influx of foreign workers, may be a kind of frontal assault. To the extent that "equal wages for equal work" is strictly observed, we will need to return to the principle of "macrocontrol," in which the influx of foreign laborers is of necessity controlled by the demand side. To say that employers must adhere to the equal-work-equal-wage system, and yet are required to prevent the entry of workers who are judged to be unskilled, is almost to take the irresponsible position that a number of industries vital to the preservation of the national economy may safely be displaced from Japan. Then again, if immigration is not allowed up to the point where foreign workers who have the same employment status as Japanese are admitted, this is nothing more than a truly indecent isolationism, concealing racism, and a society where this kind of argument goes unchallenged cannot be qualified to claim "internationalization."

To sum up, what I want to advocate here is the adoption of an employment licensing system, the outlines of which would be the same as the gist of the report of the Labor Ministry's "Foreign Worker Problems Study Group," chaired by Professor Kazuo Koike.

That report made the following comments on the necessity of and the procedures for an employment licensing system: 1) Owners of businesses in Japan who hire foreign workers would have to obtain employment permits in advance, and hiring foreign workers without these permits would be prohibited. 2) In the employment

permits, in order to guarantee reasonable working conditions, it would be necessary to establish the following terms for business owners: (a) Regarding wages and other working conditions, foreign workers shall be given equal treatment with domestic workers; and when the economic base is stable, the arranged contract terms shall be faithfully executed. (b) A structure shall be set up with the capacity to appropriately carry out the supervision of foreign workers from the time they are hired until they retire; for example, attention shall be given to mutual understanding concerning work instructions, education for safety and health shall be implemented, and the equivalence of facilities shall be ensured. (c) Laws such as the Labor Relations Law shall not be violated. **3)** The permits would be given a fixed time limit, with renewals granted as the need arises. **4)** With an eye to providing for the system's effectiveness, employers would be penalized if they hire foreigners who have lost their permits.

But the crucial point of controversy in this report is that nothing is said to the effect that unskilled laborers would continue to enter the country without permits as they do now, and that consequently the license system would apply only to "Specialized, technical or managerial occupations requiring intelligence, judgement, or technical skill above a certain sufficient level, whose existence in Japan is difficult to guarantee judging from conditions in the labor market." The questions it is most important to raise are entirely absent from this report.

Although I am not in sympathy with the position of the Justice Ministry, which plans to exclude illegal workers with a stricter immigration law, even so I believe that the objections immediately raised by the Justice Ministry to the employment license proposal of the Foreign Worker Problems Study Group were themselves right on the mark. Namely, the Justice Ministry says that "although the prevention of illegal employment is one of the objectives of the employment licensing system, because most illegal workers are engaged in unskilled work in small businesses or entertainment-related businesses, if the principle of not taking in unskilled workers is adhered to then the illegal workers will not be granted permits; ultimately foreigners who want to work at unskilled labor will unavoidably continue to work illegally, and the aforementioned objectives will not be achieved." The logical inconsistencies in the Labor Ministry's report are brought nicely to the fore.

As the reader can imagine, it is merely my opinion that opening the door in principle to so-called unskilled workers and then subjecting their employment to a licensing system is the best possible formula. We must investigate without delay a system whereby formal entry channels for foreign workers are opened, thus ensuring, through their employers, that legitimate foreign workers have the same employment status as Japanese. With such a system working to eliminate the illegal labor market, we must at all costs break out of the vicious circle in which the existence of the illegal labor market invites the entry of still more illegal workers, cumulatively expanding the scale of the problem.

Is this not the Japan famous throughout the world for its efficient "MITI [Ministry of International Trade and Industry] administration;" for the preeminent strength shown in its business-world leadership? If only that power could be conferred upon the Labor Ministry, the ministry could not fail to display great effectiveness in the administration of employment permits. At the very least, it does not seem that the problem of foreign workers and the businesses that employ them has yet reached the magnitude where it is impossible to control.

When the influx of illegal workers has reached an even larger scale, and the two-tier labor market has firmly taken root, it will be too late. In that case, it is clear from the experiences of Europe and America that however narrow the range of the policies open to us, they will have to suffice. The deadline is approaching.